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C O N F I D E N T I A L KINGSTON 000634

SIPDIS

STATE FOR WHA/CAR (JMACK-WILSON) (RALVARADO) (VDEPIRRO)  
(WSMITH)  
WHA/EPSC (MROONEY) (FCORNEILLE) (AWONG)  
INR/RES (RWARNER)  
INR/I (SMCCORMICK)  
SANTO DOMINGO FOR FCS AND FAS  
TREASURY FOR ERIN NEPHEW  
EXPORT IMPORT BANK FOR ANNETTE MARESH  
USTDA FOR NATHAN YOUNG AND PATRICIA ARRIAGADA  
OPIC FOR ALISON GERMAK

E.O. 12958: DECL: 08/25/2039

TAGS: [ECON](#) [ETRAD](#) [EFIN](#) [ENRG](#) [EIND](#) [PREL](#) [PGOV](#) [PIND](#) [TRYs](#)  
IADB, IBRD, IMF, SOCI, ASEC, KCRM, XL, JM  
SUBJECT: JAMAICA: A SERIOUS LAG EFFECT FOR POST RECESSION  
GREEN SHOOTS

REF: A. KINGSTON 614

[B](#). KINGSTON 581  
[C](#). KINGSTON 422  
[D](#). KINGSTON 223  
[E](#). KINGSTON 427  
[F](#). KINGSTON 626  
[G](#). KINGSTON 622  
[H](#). KINGSTON 531

Classified By: Isiah L. Parnell Charge d'Affaires, a.i. for reasons 1.4  
(b and d)

#### SUMMARY AND ANALYSIS

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[11.](#) (C) Despite signs of stability in the Jamaican dollar and moderating inflation, the island nation is still far from seeing post-recession green shoots. Even when an economic recovery takes hold in the United States, it will do little to pull Jamaica out of its ongoing economic malaise. Major changes are needed in the market orientation of the island and, to date, the Government of Jamaica (GOJ) seems unwilling to make the difficult choices needed to address its triple intrinsic challenges of high energy costs, high security costs, and a lack of business diversification. Furthermore, two of the three main pillars of the economy, bauxite and remittances, have suffered serious declines. Only the third pillar, tourism, has remained robust. There is cause for concern as the Jamaica Labour Party (JLP)-led GOJ continues to muddle along and undergo changes of key personnel in the face of daunting challenges. The island appears to be one or two events away from a potentially steep and precipitous economic downward spiral. A devastating hurricane, a high profile violent incident against tourists, or the loss of PetroCaribe benefits could well be the tipping point.

END SUMMARY AND ANALYSIS.

Breaking Track Record of Moribund Growth

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[12.](#) (SBU) After a series of measures by the Central Bank (BOJ), the Jamaican dollar has stabilized, skyrocketing interest rates are declining slightly, and inflation is moderating (Reftel A). The BOJ reduced interest rates

another 100 basis points on August 20. The GOJ also is on the verge of a standby agreement with the IMF which should provide USD 320 million in special drawing rights by early September, in addition to a possible USD 1.2 billion, affording the GOJ some much needed breathing room in the near term (Reftel B). Although these are noteworthy improvements given the extraordinary global economic crisis, there are still fundamental weaknesses in the economy that need to be addressed in a long-term strategic manner if Jamaica is to ever break with its two-decade history of moribund economic growth averaging just over one percent a year. Even when the U.S. benefited from a major economic boom in the 1990s, there were no spillover benefits for Jamaica, which still endured years of anemic growth.

#### Addiction to Debt

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**¶3.** (SBU) The Jamaican economy has been supported by increasing reliance on debt since the 1970s, which has led the country to become the fourth most indebted in the world. The debt-to-GDP ratio is 114 percent, and is expected to climb to 120 percent before year's end. (NOTE: The rate was once as high as 212 percent in the 1980s, but declined during a brief period of economic growth. END NOTE). Until the GOJ can begin to better collect tax revenues already owed or grow the business community to create a wider tax base, it will continue to face budget shortfalls. (NOTE: the GOJ only collects about 40 percent of the tax revenue it is owed, but there are some signs of improvement in collections, in part as a result of assistance provided by the U.S. Mission and the U.S. Treasury's Office of Overseas Technical Assistance. END NOTE).

#### Debt Spending, Party Is Over

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**¶4.** (SBU) The onset of the global economic downturn and an end to loose credit conditions dried up Jamaica's supply of debt financing. The eventual downgrade of the island by international ratings agencies has further frozen Jamaica's access to credit markets. Standard and Poor's lowered the country to CCC in August (Reftel A), and Fitch Ratings warned on August 20 that it will downgrade Jamaica's rating, which currently stands as B, with a negative outlook, if the country cannot secure a borrowing deal with the International Monetary Fund (IMF). The inability to continue borrowing at the same pace has forced the GOJ to reluctantly work with existing revenues and acknowledge its budget shortfalls.

#### A Good Debtor Gets Tested

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**¶5.** (SBU) GOJ has a long history of paying its debt, an obligation specified as the highest priority in its Constitution. However, its ability to continue to service this debt is being tested. The GOJ is seeking an interest rate reduction from bondholders in exchange for longer term notes (Reftel C.) Prime Minister Bruce Golding has been adamant that any move not be perceived as a default or blemish on Jamaica's history of paying its debts. Golding's concern may have restrained him in negotiating aggressively with bondholders for a concession. The GOJ has no choice but to quickly secure a deal with the IMF, which will restore confidence in Jamaica and provide an avenue for the country to address some of the structural reforms that are long overdue.

#### Remittances Down 16 Percent Since January

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**¶6.** (SBU) Jamaica is heavily dependant on remittances sent from the Jamaican Diaspora in the United States (53 percent) and United Kingdom (19 percent). Total remittances for 2008 were USD 2.02 billion and equal to nearly 20 percent of GDP; it is these funds that help a significant number of Jamaicans

to survive day to day. The money is used to pay for basics such as food and rent. Since January, remittance inflows to Jamaica have fallen 16 percent, and the slide is likely to continue as unemployment remains high in the U.S. and U.K. markets. The Bank of Jamaica (Central Bank) reported that inflows fell to USD 854 million from January to June of 2009.

This is down from USD 1 billion for the same period in 2008.

If the trend continues for the year at the same pace, Jamaica would expect USD 300 million less in revenues. The likelihood of a jobless recovery in the U.S. remains high, indicating further declines in remittance inflows are likely, at least in the near term.

#### Energy: The Noose That Strangled Bauxite

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¶ 17. (SBU) At a price of 31 cents per kilowatt hour, Jamaica has some of the highest energy rates in the region and has severely hindered the bauxite sector. Three of the four plants on the island have closed down and the country has faced significant job losses in the bauxite sector (Reftel D). The GOJ appears to have suffered from a culture of risk aversion; the Energy Ministry was unwilling to choose between coal and liquefied natural gas (LNG) and therefore did not make any choice at all to improve energy diversification. This approach left them completely reliant on petroleum products for electricity generation, and thus has made energy costs a binding constraint on economic growth (Reftel E). Jamaica will have a significant challenge trying to compete in manufacturing against its more energy rich neighbors. In 2005, JAMALCO bauxite (joint venture between the GOJ and U.S. firm Alcoa) postponed indefinitely a plan to double capacity until the GOJ could demonstrate the ability to provide more affordable energy. In 2008, Bauxite export earnings were USD

1.3 billion. For 2009, bauxite export earnings are expected to decline to USD 650 million, and the situation would have been even more dire had world bauxite prices not begun to recover recently as a result of slightly improved world demand.

#### Where Jamaica Should Focus

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¶ 18. (SBU) In the energy sector, Jamaica needs to focus on reducing power consumption, which is far less expensive than generating new power. There are opportunities to expand wind and solar energy, but most of these efforts have been very small-scale. The GOJ needs to implement legislation for more energy efficient building codes and net billing (or net metering) to encourage conservation and reduce demand (Reftel F). Unfortunately, there has been a fair amount of talk on the subject but little tangible progress. Jamaica enjoys the benefits of reduced costs for petroleum under the PetroCaribe agreement with Venezuela, but it has not prepared for the eventual day when those benefits might be curtailed or lost completely (Reftel G).

#### Subjected to the Whims of Oil and Chavez

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¶ 19. (SBU) Until the GOJ is able to bring a mix of fuel sources to the island, whether coal, LNG, or increased use of renewable energy, it will not be able to break the binding constraint of high energy costs, and thus will remain subject to the volatile rise and fall of world oil prices or the whims of Venezuelan President Hugo Chavez. Oil prices are up 60 percent for the year as of August 3, and Chavez has hinted at, and then backed away from, making revisions in the terms of the PetroCaribe agreement (Reftel G). Both of these trends should raise alarms within the GOJ.

#### Crime Trending Higher, May Bleed Into Tourism?

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¶ 10. (SBU) Major crimes are up 20 percent for the first seven months of the year, with a spike in robbery (up 18 percent),

break-ins (up 79 percent), and larceny (up 127 percent) (Reftel H). As economic conditions deteriorate, it is difficult not to attribute this spike in crime to the economy. Minister of National Security Dwight Nelson claimed murder is down 10 percent and rape is down 24 percent (Reftel H), but crime reports in the press would seem to suggest otherwise. The trend appears to indicate that as economic conditions worsen, there is the potential for rising violent crime related to robberies or break-ins. If this sudden upward trend in crime becomes directed toward tourists, Jamaica could see a decline in the last pillar of its economy that has remained robust during the global downturn. Jamaica also faces exposure to natural disaster risks, particularly as it enters this year's hurricane season. Any significant storm damage could discourage visitors, deprive the island of much needed hard currency revenues, and result in job losses in a sector that has, to date, done well.

#### No Clear Handle on Crime

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**¶11.** (C) Despite admitting that crime is a priority in nearly every public venue, the GOJ still appears to lack a clear and convincing plan for how it will tackle the island's violent crime problem. Minister of National Security Dwight Nelson has spoken of &crushing the criminal gangs<sup>8</sup> within a few years, but in reality the GOJ has been slow to use some of the legislative tools at its disposal (Reftel H). For example, the GOJ has promised aggressive implementation of the Proceeds of Crime Act, but the Jamaica Constabulary Force (JCF) continues to rely on an older and less robust legislative instrument to seize criminal assets. The Financial Investigative Division (FID) Act awaits passage and key Anti-Crime bills continue to languish in Parliament. Meanwhile, concerns about crime and its associated costs on

business operations creates an impediment to investment on the island. Guard services average USD 7,000 per year and the cost for installation of electronic access and camera surveillance averages USD 4,500. Both of these types of security are present at an overwhelming majority of business locations, and thus drive up the cost of doing business.

#### COMMENT AND ANALYSIS

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**¶12.** (SBU) Jamaica is seeing some positive signs, in that it appears to have stabilized the currency and reduced inflationary fears. However, the island is far from improving its long-term economic prospects, even if the U.S. economy begins to see positive growth. Until the JLP-led GOJ begins to make difficult decisions that will address the triple intrinsic challenges of high energy costs, high security costs, and a lack of business diversification, little economic growth should be expected. The island appears susceptible to a potentially steep and precipitous economic downward spiral brought on by issues of crime and exposure in its energy sector. END COMMENT AND ANALYSIS.  
PARNELL